

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1475-01
Bill No.: SB 501
Subject: Taxation and Revenue - Sales and Use; Transportation Department
Type: Original
Date: March 11, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	(\$5,125,000)	(\$7,650,000)	(\$7,950,000)
Total Estimated Net Effect on General Revenue Fund	(\$5,125,000)	(\$7,650,000)	(\$7,950,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Road Fund	\$9,780,208	\$14,598,750	\$15,171,250
School District Trust	(\$1,708,333)	(\$2,550,000)	(\$2,650,000)
Conservation	(\$213,542)	(\$318,750)	(\$331,250)
Parks and Soil	(\$170,833)	(\$255,000)	(\$265,000)
Total Estimated Net Effect on Other State Funds	\$7,687,500	\$11,475,000	\$11,925,000

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	(\$2,562,000)	(\$3,825,000)	(\$3,975,000)

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Office of Administration, Division of Budget and Planning (BAP)** assume this bill would exempt contractors from paying sales tax on Missouri Department of Transportation (MoDOT) projects. This proposal will decrease state revenues. BAP defers to MoDOT to provide an estimate of this bill. This bill would have no impact on BAP.

Officials of the **Department of Transportation (MoDOT)** assume this legislation exempts contractors from paying sales tax on materials used in MoDOT projects. Section 144.062, RSMo currently exempts sales of personal property and materials used for the purpose of constructing, repairing, or remodeling facilities for counties, other political subdivisions and certain exempt entities from the state sales tax. This bill would add the Department of Transportation as an exempt entity. Therefore, materials could be purchased by a contractor for a MoDOT project on a tax-exempt basis.

The sales tax which contractors currently pay on materials purchased for MoDOT projects is included in the project cost which is paid by MoDOT. Assuming that contractors would reduce their project costs due to the ability to purchase materials on a tax-exempt basis, this bill would result in a cost savings for MoDOT.

ASSUMPTION (continued)

The proposed legislation would result in cost savings beyond the three-year period addressed by this fiscal note. Estimates for other years are as follows:

2007--\$12,041,000

2008--\$11,618,750

Based on the 2003-2007 Statewide Transportation Improvement Program (STIP); 1/2 construction contracts labor, 1/2 materials; August 31, 2003 effective date; and sales tax rate of 4.225%, the cost savings were calculated as follows:

Fiscal Year	STIP Awards	% Materials	Materials Cost	Sales Tax Rate	Cost Savings
2004	\$410,000,000	50%	\$205,000,000	4.225%	\$8,661,250
2005	\$510,000,000	50%	\$255,000,000	4.225%	\$10,773,750
2006	\$530,000,000	50%	\$265,000,000	4.225%	\$11,196,250
2007	\$570,000,000	50%	\$285,000,000	4.225%	\$12,041,250
2008	\$550,000,000	50%	\$275,000,000	4.225%	\$11,618,750

Officials of the **Department of Revenue (DOR)** did not respond to our fiscal note request.

Oversight assumes since this bill creates an additional sales tax exemption which will reduce revenue to the state and local government, this legislation would have minimal administrative impact on DOR and any costs could be absorbed.

Oversight calculated the revenue impact to include an impact to cities and counties. **Oversight** assumes the revenue impact for FY04 would be for ten months. This proposal would create a saving of \$9.8 million in FY04, \$14.6 million in FY05 and \$15.2 million in FY06 for the Road Fund. Combined losses in the General Revenue Fund, School District Trust Fund, Conservation Fund, Parks and Soils Fund and local city/county funds equal the savings in the Road Fund for this proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
<u>Loss</u> to General Revenue Fund			
Exemption for MoDOT projects	<u>(\$5,125,000)</u>	<u>(\$7,650,000)</u>	<u>(\$7,950,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$5,125,000)</u>	<u>(\$7,650,000)</u>	<u>(\$7,950,000)</u>
OTHER STATE FUNDS			
<u>Savings</u> to Road Fund			
Exemption for MoDOT projects	\$9,780,208	\$14,598,750	\$15,171,250
<u>Loss</u> to School District Trust Fund			
Exemption for MoDOT projects	<u>(\$1,708,333)</u>	<u>(\$2,550,000)</u>	<u>(\$2,650,000)</u>
<u>Loss</u> to Conservation Fund			
Exemption for MoDOT projects	<u>(\$213,542)</u>	<u>(\$318,750)</u>	<u>(\$331,250)</u>
<u>Loss</u> to Parks and Soil Funds			
Exemption for MoDOT projects	<u>(\$170,833)</u>	<u>(\$255,000)</u>	<u>(\$265,000)</u>
ESTIMATED NET EFFECT TO ALL OTHER STATE FUNDS	<u>\$7,687,500</u>	<u>\$11,475,000</u>	<u>\$11,925,000</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
<u>Loss</u> to Cities			
Exemption for MoDOT projects	<u>(\$1,537,500)</u>	<u>(\$2,295,000)</u>	<u>(\$2,385,000)</u>
<u>Loss</u> to Counties			
Exemption for MoDOT projects	<u>(\$1,025,000)</u>	<u>(\$1,530,000)</u>	<u>(\$1,590,000)</u>
ESTIMATED NET EFFECT TO LOCAL GOVERNMENT	<u>(\$2,562,500)</u>	<u>(\$3,825,000)</u>	<u>(\$3,975,000)</u>

FISCAL IMPACT - Small Business

Small businesses that sell to MoDOT would be expected to be impacted as a result of this proposal.

DESCRIPTION

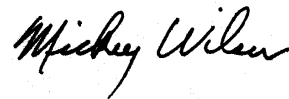
This proposal exempts contractors from paying sales taxes on materials used in Department of Transportation projects.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration
Division of Budget and Planning
Department of Transportation

NOT RESPONDING:
Department of Revenue



MICKEY WILSON, CPA
DIRECTOR
MARCH 11, 2003